

NCUA Chairman Debbie Matz
Speech to Michigan Credit Union League Annual Convention
May 13, 2011

Thank you...

Before I get to the heart of my speech, I first want to commend each of you for your commitment to Michigan's credit unions.

Michigan's credit unions lead the nation in several important ways. First, your credit unions continue to grow. And some of you may be surprised to learn, Michigan's growth outpaces the national average.

Not only that, but Michigan's member penetration rate is now the highest in the nation. You've attracted more than 4.5 million members and serve more than 44 percent of all consumers in the state. This is especially impressive considering the state's declining population and high unemployment.

It's a credit to all of you that during the toughest times, when consumers needed affordable financial institutions to rebuild their future, Michigan's credit unions served as a model for economic recovery. You've played a critical role in revitalizing Michigan's economy. Your "Invest in America" program successfully linked the value of buying American vehicles to the value of joining America's credit unions. You should be very proud that Invest in America has generated more than 500,000 vehicle sales for GM and Chrysler, and that these sales are primarily financed by credit unions. Your program is empowering consumers to save money, boost domestic sales, and support the U.S. economy.

Working together, you have overcome what seemed like insurmountable obstacles. You have turned unprecedented challenges into enduring opportunities. Your spirit of resilience may be unmatched across the nation.

Your participation in this convention is a testament to your dedication to the long-term success of Michigan's credit unions, and your willingness to get the training so crucial to that success.

As the federal insurer, I'd like to thank you for your dedication.

While other financial institutions are about profits, credit unions have always been about people. That's why, especially in times of economic hardship, it is our job to protect the financial security of the 90 million credit union members.

I recognize that your commitment to the members is what compels you to work as hard as you do. So I have to conclude that your perseverance is driven by the belief that America's credit unions are worth fighting for. That's a belief I share.

And that's why I want to talk about what I believe to be the three core elements of an effective credit union system:

- Effective regulation;
- Effective volunteer leadership;
- And effective outreach.

Let's start with effective regulation – one of your favorite topics, I'm sure! When I became Chairman of NCUA last year, I said that these difficult economic times require NCUA to provide tough love.

Shortly thereafter, I got a letter saying: "We're feeling the tough. But we're not feeling the love."

In a very real way, the toughness is driven by the love.

At NCUA, contrary to what you may have heard, we want credit unions to be strong. So today I want to share with you some of the actions we've taken that have strengthened the credit union system.

But first, it's important to understand that for most credit unions, there is no need to fear a tough regulator. In fact, a tough regulator can protect you.

Think about the role of the regulator the next time you're driving and you see a police car. If you're driving safely, you don't have to worry about getting a ticket. But if a reckless driver speeds past you and threatens to cause an accident, wouldn't you want the police to pull that reckless driver off the road?

And you'd want that driver pulled over no matter who they are or what type of car they are driving – because toughness has to be matched with fairness.

It's the same with NCUA. If a credit union is taking chances that threaten to cause serious losses, we are going to do everything in our power to prevent those losses before they impact all federally insured credit unions.

That's how we protect your investment in the National Credit Union Share Insurance Fund.

Eighteen months ago, NCUA simply did not have the resources to do that job effectively. The entire American financial system was at risk; yet NCUA actually had a smaller staff in 2009 than we did in the year 2000.

I know you are all aware of the dangers we faced from corporate credit union failures. But the untold story of the last 18 months is just how close we came to another serious catastrophe.

Several, billion-dollar CAMEL 4 retail credit unions were on the verge of failing. When I learned this, I told staff that failure was not an option. We had to do everything we could to prevent these credit unions from failing.

To do this, we had to be creative. We had to tailor remedies to unique situations at each credit union. And we had to act quickly.

So here's what we did:

We wrote very prescriptive Letters of Understanding and Agreement to commit certain credit unions to specific performance targets with very close supervision. Failing to document issues at those credit unions would have incurred significant losses to the Share Insurance Fund – and to you.

We found merger partners for credit unions that could not survive on their own. Failing to complete these mergers would have incurred significant losses to the Share Insurance Fund – and to you.

We worked with several credit union boards to select new CEOs who had the expertise to address their credit unions' unique problems. Failing to take action would have incurred significant losses to the Share Insurance Fund – and to you.

We conserved some credit unions – so they could be stabilized and ultimately returned to their members. Again, failing to take action would have incurred significant losses to the Share Insurance Fund – and to you.

None of these moves were popular among credit unions. But in each of these cases, failing to act would have meant dozens of high-profile failures, hurting all of you.

Although we were able to prevent these crises from becoming catastrophes, we also know that the best thing we can do is to prevent crises before they occur.

I should add that as of today, none of these credit unions have failed. All are stabilized. And for those in conservatorship, we are making great strides toward returning control of the credit unions to their members.

That's why we returned to a 12-month examination cycle, rather than the 18-month cycle we had been using in the years leading up to the crisis.

To understand why we had to do this, imagine again that you are driving – only this time there's a sign by the road that says “No police cars for the next one hundred miles.” Again, for most of

us, that's not a big deal. But some people would take that as a license to put their foot on the gas – and endanger everyone.

Unfortunately, that's what happened under the 18-month cycle: Some credit unions that seemed to be operating safely after one exam were a total wreck by the next exam.

Here's an example of how quickly a credit union can crash:

Cal State 9 Credit Union, which had assets of two hundred eighty-five million dollars, was rated a CAMEL 2 after its exam in March 2004. The credit union was placed on an extended exam cycle, with no follow-up for another 21 months.

In the middle of that extended cycle, the credit union ramped up a Home Equity Line of Credit program with no internal controls and no concentration limits.

In the next exam, examiners found the home equity program had grown nearly 500 percent. Examiners ordered the credit union to gain control of their program. However, it was too far down the road. The board and management were unable to undo the damage in time.

So by the next exam, the credit union's financial condition had declined past the point of no return. The impaired portfolio had to be sold for only 16 cents on the dollar. The credit union failed; and the Share Insurance Fund lost two hundred five million dollars.

I could tell you similar stories about several other failed credit unions that NCUA might have been able to save if we had examined them every year.

Of course I understand that more frequent exams require more NCUA staff and resources. So I understand your concern that when you are cutting your budgets, NCUA is asking more from you.

But even when your credit union is on a straight and narrow path, if any other credit union is not, you are going to be the ones paying for it.

Our actions, taken together, saved you hundreds of millions of dollars in additional insurance premiums. Yes, you heard me correctly. NCUA's actions have saved you hundreds of millions of dollars in additional insurance premiums.

Beyond the bottom line, though, I want to talk with you about why we did what we did, and our philosophy going forward.

One of the many lessons we learned from the economic downturn is that tough regulation is even more important during tough times. That's because these are the times when, if we're not careful, problems accelerate. More delinquencies quickly turn into charge-offs.

And it's worth noting that NCUA is not the only regulator that needed additional resources. Our budget went up 12 percent this year and 13 percent the year before. But by comparison, FDIC's budget went up 55 percent last year, and 81 percent the year before.

But here is the really big number from the past 18 months: one-point five billion dollars.

You see, if those CAMEL 4 credit unions which I mentioned earlier had failed – that is, if NCUA had not prevented them from failing – we estimate they would have cost the credit union industry one-point five billion dollars.

Instead, in 2010, we had just 28 consumer credit union failures – five times fewer than the banking industry – and actual losses of only two hundred twenty-one million dollars.

I'm not telling you this just because I'm proud of the work we are doing – although I am proud.

I'm telling you this because as a regulator, our success stories rarely become public. What you hear about are the failures.

On my watch, I don't want to see stories about failure. And, quite frankly, neither do you. In this industry – as you know – someone else's disaster affects your bottom line.

So, at NCUA, we take pride in our role as a tough, fair-minded regulator. Because I would much rather be tough today, than fail to prevent disaster tomorrow.

And I know some of you may be skeptical about this: But being a tough regulator is only part of my job.

There is also the “love” part of tough love – the times when NCUA has worked to help credit unions better serve their members.

For example, many of you face high costs because of the need to repay corporate credit union assessments by 2016.

NCUA thought it was important to extend that deadline – because by extending that deadline, we would decrease the annual cost passed on to you. But to do so required approval from the Treasury Secretary.

So we worked with the Treasury Department for almost a year... and ultimately Secretary Geithner agreed to extend the Corporate Stabilization Fund deadline from June 2016 to June 2021. That will cut credit unions' average annual assessment in half.

In another effort to streamline costs, I testified before the Senate Banking Committee on the need to enact three technical amendments to the Federal Credit Union Act. We called this package of amendments the “NCUA toolbox” because it gives NCUA the tools to reduce the costs of managing both the Share Insurance Fund and the Corporate Stabilization Fund.

Earlier this year, President Obama signed the NCUA toolbox into law. These amendments will all directly and dramatically improve your bottom line in the following ways:

The first amendment strengthens NCUA's ability to help credit unions complete emergency mergers. This will continue credit union service to members, reduce losses to the Share Insurance Fund, and more importantly, lower costs for you.

The second amendment prevents NCUA from counting losses from conserved credit unions on our balance sheet. This will save you hundreds of millions more dollars – especially since we recently had to conserve a \$1.2 billion credit union in Texas. Imagine having to put that on our balance sheet.

The third amendment allows NCUA to repay the Corporate Stabilization Fund without having to borrow from the Treasury. This will save credit unions at least sixty million dollars over the next ten years.

Beyond these changes, which have become law, NCUA also continues to support two important legislative initiatives.

In testimony before the Senate Banking Committee and in a letter to Secretary Geithner, I urged policymakers to lift restrictions on member business lending. Small business owners are in need of capital. So Congress should make it easier for credit unions to make small business loans.

In addition, I recommend permitting supplemental capital under some circumstances. Healthy credit unions should not be punished for taking new deposits. But with interest rates still low, new deposits lower the capital ratio, which could become a weakness that by law must be remedied. Without supplemental capital, many of you have no choice other than to discourage new deposits.

It makes no sense to me that at a time when more consumers are discovering credit unions as a safe place to save, the law requires many of you to turn those consumers away!

I wholeheartedly believe you should be able to access supplemental capital to relieve the pressure that new deposits put on your capital ratio.

I should add that there's another benefit to regulation that's harder to quantify: maintaining trust between the industry and consumers.

Consumers have so many choices when it comes to personal finance. Some choose credit unions because they get better interest on their deposits, or better rates on their loans.

But for many, the attraction of credit unions cannot be measured in basis points. It's that sense of community – a sense that people care about them, not just their money.

In many ways, trust is a credit union's most valuable asset.

This was really brought home to me in the fall of 2009 when I got a call from Suze Orman.

Suze asked about how credit unions work, and about the advantages they offer consumers. And she became one of the most important friends credit unions could hope for.

Since then, Suze Orman – financial advisor to millions – has been telling consumers to cut up their bank credit cards and get a credit union credit card!

Suze has lent her image – and her reputation – to NCUA's public education campaign. Our campaign educates people about the safety and soundness of federally insured credit unions.

The campaign has reached more than 150 million people on TV, online, in print and on the radio. This amazing outreach effort cost less than one penny per person. More importantly, in six short months it has generated six million dollars in free advertising for credit unions!

Through this initiative and others, NCUA is promoting and reinforcing the dependability that credit unions can provide to consumers.

So I've told you why effective regulation is so important. Now this may come as a surprise, but responsiveness to regulation is not enough to keep credit unions strong. There must also be responsiveness to credit union members and communities at large. That's why credit unions need informed, engaged and effective volunteer leadership.

And that's why we are clarifying, codifying, and helping volunteers develop the skills they need.

I know there's been some distress and confusion about the fiduciary duties regulation.

So let me take a moment to detail what it is – and what it is not.

The key measure of any credit union's success or failure is its financial statements. As such, a director must understand these financial statements to meaningfully participate in the control of the credit union.

The fiduciary duties regulation says that directors must have a certain base level of financial skills, consistent with the size and complexity of the credit union they serve. At a minimum, directors must be able to read and understand their credit union's balance sheet and income statement and answer the following questions:

What does each particular line item on the balance sheet and income statement mean?

Why is it important to the credit union?

Is the value of any line item changing over time? If so, what does the negative or positive change mean?

Is the change important to the credit union?

The financial skills requirement has engendered a lot of misconceptions and even disinformation.

Allow me to spell it out clearly: Volunteers don't have to get certified. You are not going to be tested on your knowledge – at least not by any NCUA examiner. And directors who already have the required financial skills will not have to receive financial training.

Credit unions will be expected to institute financial education programs by July 27th, but only for those directors who cannot read a balance sheet or an income statement.

For those directors who do need financial training, we're not just going to tell you to get the necessary skills; we will help you get them.

Training modules will be on our website by July so people can learn online in the comfort of their own homes or offices.

We are also hosting 34 free workshops around the country to provide onsite training.

I know that many of you have participated in workshops hosted by your league, CUNA or NCUA. And I commend you for that. I hope you would agree that the regulatory requirements are not difficult to achieve. But they are crucial because they ensure that volunteers have the ability to assess the risks in their credit unions.

Another issue we've heard a lot about is indemnification. There is some misperception that the new regulation ends indemnification. Let me assure you: It does not. It essentially codifies what has already existed.

Federal credit unions can still buy liability insurance for officials and employees.

If a board member needs a loan for legal expenses, he or she can still get that loan. Only in cases where there is a finding of gross negligence, would the board member have to reimburse that money.

Again, these requirements are not intended to be an undue burden. They're intended to provide you with protection against reckless, irresponsible, or uninformed behavior that puts the whole industry at risk.

I hope you'll agree – those two changes are not major.

But there will be a change this year that is major. You will have to decide where to get essential services that have traditionally been provided by corporate credit unions.

This decision will impact where your credit union receives liquidity for loans, and how your credit union processes payments for members.

If your credit union currently receives these services from a corporate under NCUA conservatorship, you can choose from three options:

- Support a new corporate charter.
- Switch your business to another corporate.
- Or, find a service provider outside the credit union system.

And if your credit union receives services from a corporate not under conservatorship? You can continue to do business with that corporate as long as it meets the capital requirements that will take effect in October.

If your corporate is currently undercapitalized, you will have access to your corporate's business plan no later than next month. The business plan should give you all the forward-looking information you will need to decide what to do next.

To ensure that board members and management can easily access important background information about the corporate system, we did two things.

First, we posted a Corporate System Resolution section on our website.

Then, we mailed out DVDs containing the most critical information to every credit union. I hope by now you have had an opportunity to watch these DVDs and discuss them as a group with your board and management.

Some credit union officials have asked me: "Why can't NCUA just tell us what to do?"

As a regulator, we're not in a position to tell you which road to choose. Our responsibility is to ensure that the road ahead is clear, and provide a map to help you get to where you're going, safe and sound.

Everything I've shared to this point is about navigating the current environment.

But what about the next chapter? To me, the most successful credit unions in the days ahead will not only be the ones with effective leadership, but also the ones that conduct effective outreach.

Right now, a huge potential market is being underserved by credit unions: younger consumers.

The average age of credit union members is 47, up from 40 just a few years ago.

Why is this important? Because the key to a successful credit union is robust lending. And the peak borrowing age is between 25 and 44. This means that the average credit union member is already past his or her prime borrowing years.

To survive in the future, credit unions must begin attracting more members who are younger than your current peak borrowers.

In 2006, credit union members between ages 18 and 24 made up just six percent of credit union membership. More recently, this young demographic in credit unions has shrunk to only four percent. Yet nearly a third of the U.S. population is under age 20.

This raises a number of questions: Does the younger generation understand what credit unions are? Do they know how credit unions can help secure their future? Once they join a credit union, is there disproportionate dissatisfaction among younger members? As credit union board members and management, it is your collective job to make sure your credit union educates consumers and dispels dissatisfaction through effective outreach to a younger market.

A survey of 5,000 credit union members found a close correlation between the age of members and consumer satisfaction. This survey found that older generations tend to value a personal touch and stability in their institutions, two areas that are traditional strengths of credit unions.

But younger people are more concerned with convenience and choice.

It's incumbent upon credit unions to adapt to meet changing demands and attract the consumers of tomorrow.

So how can you tailor unique and creative strategies to build a more dynamic membership base?

Two words: Technology and Accessibility.

Today's younger market expects services like mobile banking, ATM fee rebates, and online bill-paying. They expect to be able to open accounts and be approved for loans online. They expect immediate customer service 24/7 in real time. And they want to be able to make deposits using their iPhones.

If you don't offer what they expect, they're going to take their business elsewhere. That's why it is absolutely essential that you use all of the tools at your disposal to win over this generation.

Ask yourselves: How user-friendly is my credit union's website? Does its design reflect a modern, forward-looking institution?

And what about your external marketing? That is part of outreach too. Is your credit union still placing most of its ads in newspapers?

Tech-savvy generations get their information delivered to them in new ways. Instead of reading their local paper or watching evening news coverage of what the networks choose to deliver, younger generations tend to select who they want to get their news from and what organizations to follow in their own personalized ways. Or they read stories posted by their friends.

If your credit union isn't connecting to these potential members on their own turf, if you aren't speaking to them in their own language, and you don't exist in their fast-paced spheres of influence, how can you expect to turn them into members? In short, you can't.

So today I'm going to give you a homework assignment. When you get back to your credit union, ask staff to run a report that will show you how many of your credit union's members are over age 60. Then ask yourselves: Ten years from now, how will you make the loans your credit union will need to survive?

If your credit union is going to have a tomorrow, you need to reach young people where they are with the products that they want and need. If you're not doing these things, you're foreclosing on the future of your credit union.

Creating and fostering a sense of community is the traditional purview of credit unions. Social media, the Internet and technology are the tools that are redefining "community" for a new generation. So it is incumbent upon you to make use of those tools.

If you take your traditional stability and member service and marry it with today's cutting-edge technology, then you'll have unlimited potential for a more prosperous tomorrow.

That's ultimately what this is all about – growing and thriving in the future.

I can't tell you how many stories I hear every week of people who had a dream and a plan... but didn't have the financial support... until they had a credit union.

In a world in which banks seem more and more like faceless monoliths, I look at you and see the faces of your communities – volunteers... managers... leaders.

And I know that's what your members see, too.

In realizing the dreams of individuals, you're strengthening communities – and our nation's economy – in the process.

Winning the future depends on security and stability in the financial sector. And that means all of you have a vital role to play.

With effective regulation, effective leadership, and effective outreach, we can strengthen America's credit unions, and, in so doing, meet the needs of millions more Americans.

Thank you...

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